The Nolan Newsletter

People, Process, Technology

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

Fourth Quarter 2008 *Volume 35, Number 4*

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Operating in the "Cone of Uncertainty"

Southern coastal residents know as much about the weather halfway across the globe as they do about the weather in their backyards. That's because weather systems off the coast of Africa could eventually arrive on our shores in the form of a hurricane. Once the system evolves into a tropical storm, its most-likely storm track is predicted, with the extra feature known as the "cone of uncertainty." And as the whole nation saw with Hurricane Gustav, everyone in the "cone" is advised to take measures to protect their property.

Due to economic conditions, most companies are now operating in a cone of uncertainty. Revenue growth and profitability are all in question. Further, inflationary forces of rising prices and declining productivity widen the cone of uncertainty even more. The credit crisis is putting some banks on the brink of survival. Insurance companies are also feeling effects of the credit crunch and other economic forces. Pressure on property and casualty premiums are forcing companies to look at how they price risks. The declining returns on investments have squeezed the life insurance industry profitability just as products "guaranteeing" certain benefits are being introduced.

The decisions that organizations make when in the cone of uncertainty will determine how much "damage" they will absorb from the economic storm. Rather than merely slashing costs across the board, we believe there are three elements that enable organizations to deal with the cone of uncertainty more effectively: 1) Stay focused on top-line revenues by working with the distribution system to leverage all sales opportunities; 2) Stay focused on the customer by improving service, quality, and productivity; and 3) Identify and eliminate all non-value added work, versus across-the-board cuts. This three-step approach involves all parts of the organization in a positive way, versus in a reactive and negative way.

And, when the storm passes and you are no longer in the cone of uncertainty, your organization is stronger and able to seize the opportunity to begin growing again. ▪

Ben DiSylvester

Ben DiSylvester
Chairman

Insights From This Year's Nolan Efficiency Ratio Performance Study

The findings of the recently completed Nolan Annual Efficiency Ratio Performance Study reveal what we have been seeing in the industry. The pressure on revenue is making itself felt in both the bank operating ratios and in the stock market. The Dow Jones U.S. bank index is down over 13 percent in 2008 as of this writing, following a 22 percent decline from 2006 to 2007. There is a direct correlation between a bank's efficiency ratio and its price/book, as indicated in an earlier Nolan study. We know that the emotions of the marketplace will influence entire sectors, but that "all ships do not fall and rise with the tide" equally.

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The Nolan annual study focuses on 10 major lines of business, 83 subcategories, and 1,200 performance ratios. Four of the lines of business (administrative, commercial banking, retail banking, and credit) tell the tale for 2007–2008.

At the top line, or total administrative level, there is a significant gap between the benchmark banks (the top quartile) and the average banks who participated (mean average). The average bank spent 21.07 percent of its operating costs on administrative functions (such as information technology, human relations, accounting and finance, audit, investments, compliance, security, marketing, investor relations, facilities and properties, purchasing, CEO, and corporate staff). By contrast, benchmark banks spent at a rate of 14.53 percent, for a bottom-line gap of $3.25 million for each billion in assets on average. It is significant because acquiring banks often view the administrative costs as redundant and consider them to be part of the acquisition funding. The key areas where the gaps were significant this year were marketing, human resources, facilities, information technology, investments, CEO, and corporate staff.

Commercial banking is one line of business that showed improvement year over year, with a steady decrease in both the benchmark and average banks. The benchmark banks declined from 15.71 percent in 2005 to 7.48 percent in 2007, while the average banks declined from 27.53 percent in 2005 to 20.75 percent in 2007. The gap for 2007—a difference in performance of 177 percent—and the resulting opportunity are significant. The major areas for improvement in commercial banking include middle market, lease financing, business banking, and cash management.

In retail banking, there is one primary area where the benchmark banks have a significant lead over the average banks. The platform area reports an efficiency ratio of 18.32 percent for the benchmark banks, compared to 28.24 percent for the average banks. A contributing factor is the reported productivity, which shows that the number of new accounts per platform employee is 508 annually for the benchmark banks vs. 399 for the average banks. Other areas that show some potential are deposit operations and teller operations.

Credit operations also hold a potential for improvement...

Credit operations also hold a potential for improvement: benchmark banks reported an expense per commercial, consumer, and private banking loan of $50.27, or $1.31 per $1,000 of loans. For the average banks, the same expense was $83.44, or $2.38 per $1,000. The new account costs hold an even higher gap, with a cost per $1,000 of new loans for benchmark banks of $2.59 compared to the average bank's cost of $8.88.

Macro results reported in the Nolan annual study give us pointers that we can share in our newsletter, but, given differing strategies and variances in local markets, our specific guidance for participants provides those banks the greatest opportunity for improvement. We invite you to participate in our next study. ▪

THE BEST WAY TO IMPROVE BUSINESS PROCESSES

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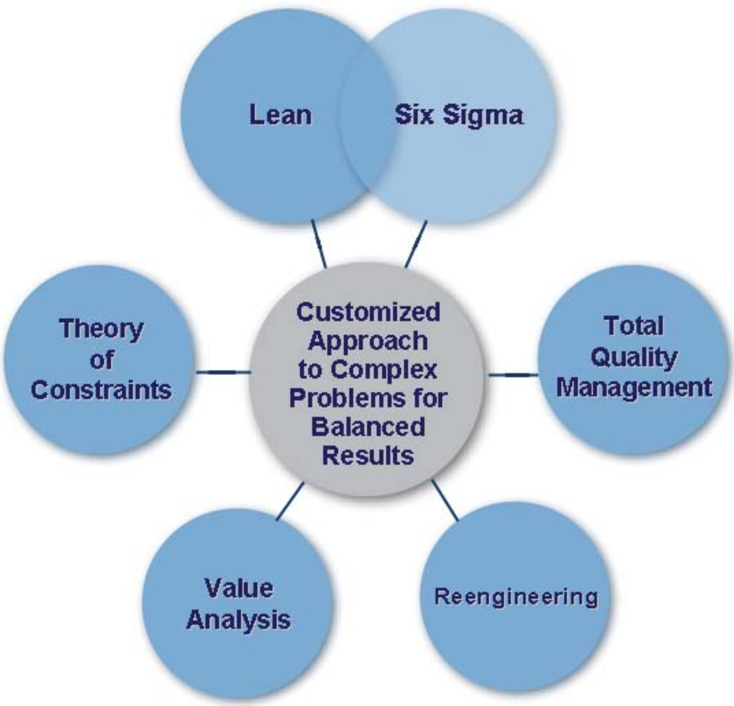
A question we often hear as we meet prospective new clients is "What's Nolan's view on the best way to improve business processes?" We have been doing this long enough to know that this is often a backhanded way of asking, "Do you guys specialize in the 'fad of the day' approach to process improvement?" While the "fad of the day" has changed over the years to include Reengineering, Total Quality Management (TQM), Value Analysis, Six Sigma, and Lean, our answer has remained the same: the best way to improve business processes depends on your objectives.



Each of the process improvement fads mentioned above brought several improvement capabilities forward. Reengineering gave us the "clean sheet of paper" concept that has yielded many innovative transformations of processes. TQM put the customer center stage by improving processes to standards that were important to the customer. Value Analysis took a different approach depending on where the process segment fell in the Importance-Reliability-Cost matrix. Six Sigma helped organizations gain statistical control of their processes to reduce or eliminate errors. Last but not least, Lean is helping businesses remove waste and improve flow. Add to this list of highly publicized approaches, a few we have developed and deployed, such as Strategy-Driven Process Design, which starts with setting the strategy and guiding principles and designing or redesigning to them. All of these are really good things.

The problem is that we rarely come across an improvement effort with such a narrow and singular focus. When we ask, "What are you trying to improve?" the answer is usually more complex than any one of the focused approaches can handle. Thus, the approach will have to be a blend of techniques to achieve the desired result.

...the best way to improve business processes depends on your objectives.

Often the drive for a specific process improvement methodology is connected with an attempt to build an internal consulting capability. Building it around a specific methodology can be appealing for a number of reasons—training is readily available; there are books, seminars, and videos galore. Also, building a new capability that people are reading about in the business press or hearing about at conferences has image value. However, in our experience, internal capabilities built around a singular methodology rarely last past the fad stage for exactly the same reason we deploy customized approaches. Internal groups are as unlikely as we are to find simple, single-focus problems that can be solved with a single approach.

So, we think the answer to the question "What's the best way to improve business processes?" is this:

- Understand what needs to be improved—what are the desired business outcomes?
- Have a working knowledge and experience with a broad range of improvement methodologies.
- Build a custom approach based on needs.

This approach is your best path to producing meaningful, balanced, and durable process improvement results. ▪

Global Projects: People Are Alike All Over

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Among the classic TV shows that viewers with cable can watch today is the 1960s sci-fi series "The Twilight Zone." A memorable episode entitled "People Are Alike All Over" involved a spaceship carrying two U.S. astronauts on a mission to Mars. One of them, named Marcusson, had a sunny outlook and believed that people would be the same everywhere. The other astronaut, Conrad, was less optimistic about the likely nature of otherworldly creatures.

As luck would have it, their vessel crashed and Marcusson (the optimist) was killed. Alone on an unfamiliar planet, Conrad was fearful about what lurked outside his marooned spaceship. Finally, he ventured out to find creatures that appeared both human and friendly. He was struck by their hospitality and overjoyed when they led him to a specially constructed residence with all the comforts of an American dream home circa 1960.

It seemed too good to be true; as Conrad soon found, it was. Conrad discovered that his new dwelling had a curious difference—it had neither windows nor doors. His new home was actually a cage, and he was the Martian zoo's newest exhibit, aptly titled "Earth Creature in Its Native Habitat." As the show ends, he shouts bitterly, "You were right; people are alike everywhere!"

Given the growing globalization of the world economy, it's fortunate that working with multi-country organizations is not as full of unpleasant surprises as those faced by astronaut Conrad in his close encounter with Martians.

Whether the goal is to expand products, markets, or services, more companies are thinking and acting globally. Implementing strategies across cultural and national boundaries can pose daunting challenges, albeit ones different from those faced by the "Twilight Zone" astronaut. In keeping with the shift toward global initiatives, here are some lessons learned that could help your company's long-distance journey.

1. Location, Location, Location

Perhaps the number-one challenge in managing global projects relates to logistics of distance and time. Time zones may be the most vexing issue when dealing with multiple locations. It takes considerable effort to keep disparate time zones in mind while in the midst of a complex project. When it's lunchtime where you are, it's hard to remember that it may be only 5:00 a.m. for your colleagues across the ocean—or vice versa. This adds a serious wrinkle when handling otherwise routine tasks, such as scheduling meetings.

There simply is no avoiding the need to accommodate time differences. Invariably, someone is required to start much earlier, or stay much later, than normal. It takes diligence and compromise to ensure that people get the right information at the right time under these circumstances.

While technology can ease the burden of international communications, there are situations where face-to-face meetings are the most effective option. A short-term focus on managing expenses has to be balanced with the longer-term need for effective communications. Rigid rules that limit face-to-face interactions, imposed in the interest of reducing project costs, will ultimately hamper success. The cost of not having face-to-face meetings can be far more injurious to a project in the long run than the one-time expense of planes, cars, and hotels.

When long-distance travel is involved, it is imperative that clear meeting objectives be set in order to ensure that outcomes are achieved. Any project that involves global interactions needs the flexibility to adjust communication methods to deliver desired results, along with a commonsense approach to balancing those results with expenses.

2. Jurisdictional Differences

Companies with locations in multiple countries must comply with local rules and regulations while adhering to applicable international standards. Local legal, accounting, and other requirements must be understood by all key stakeholders, particularly when the rules differ widely from the home jurisdiction. In this instance, what you *don't* know can have grave consequences; it's never safe to assume that things are the same everywhere. Have you heard the one about the project leader dispatched from the home office who arrived at the overseas location only to find a dark and empty office? A quick check beforehand would have revealed that a regular work day at home was a holiday in the other country. Things like this really happen, and sometimes misinformation can have an impact far worse than a scheduling mishap.

Taking new requirements dictated by local laws into account can be complex and time-consuming, amplifying the challenges inherent to all large projects. Rigorous processes are needed to deal with the increased risks that flow from multinational initiatives.

3. People Separated by a Common Language

George Bernard Shaw famously described England and the U.S. as "two countries separated by a common language." Anyone with practical experience in both countries knows the truth in his observation. The same words can mean different things, and different words can mean the same thing. The English wait in a *queue*, while Americans wait in a *line*; an English schoolchild ends a recitation of the alphabet with the letter *zed*, while an American child ends it with *zee*; the list goes on and on, including different spellings for the same words. Acronyms only increase the opportunity for misunderstanding.

Standardizing terminology and spelling conventions might sound like a marginal activity, but it is essential for effective communications. When initiatives span multiple languages, communication challenges mount. Charts and diagrams can add visual clarity to communications, but there is no avoiding the need to agree on verbal and written communication standards at the outset of a global undertaking.

4. Stakeholder Management

Understanding local methods for managing projects is vital to reinforcing a local sense of ownership and accountability.

Engaging and communicating with key stakeholders is, of course, a necessity for any effective initiative. Doing this well in a single location can be challenging, and even more so when done across vast distances or through different languages.

Understanding how, and how often, to engage with stakeholders and taking the time to reflect on their cultural preferences in terms of communication style and content takes on tremendous importance for a global project—building bridges with key stakeholders helps grow and sustain commitment across project locations.

Similarly, setting up project governance for multinational projects has its own set of challenges. For example, there may be distinct differences in project management methods and protocols used in various markets. Understanding local methods for managing projects (which provides the framework for everything from coordinating people and activities to designing and supervising the project to defining key roles and responsibilities within the project) is vital to reinforcing a local sense of ownership and accountability. Being sensitive to cultural differences helps build trust and cooperation among newly formed teams.

In reaching agreement on project governance, it is also important to remember that governance provides the context—not the content—for any project. Deference to cultural differences in managing projects should in no way trump the need to drive for results day in and day out. Achieving balance between the "how" and the "what" of the project is particularly important when managing across multiple cultures and geographies.

5. Sponsorship and Managing Information

Getting organizations in different countries to share data isn't easy. Add to that the fact that the data itself will almost certainly be formatted differently and contain localized variables (for example, currency values will be unique to the jurisdiction) and the task becomes that much harder.

Agreeing on how to align disparate data and developing shared conclusions about what it means is much easier when you have the endorsement and support of a local executive sponsor. All the planning and communicating in the world cannot take the place of a highly engaged local executive who can lead (or push when necessary) to help the team find common ground.

...a multi-country project has its challenges, but it also provides exposure and insight to different cultures...

Thankfully, most global initiatives face a far better outcome than the one experienced by the astronaut who ended up in a Martian zoo exhibit. Working on a multi-country project has its challenges, but it also provides exposure and insight to different cultures and ways of achieving business results. It requires more logistics planning, more diligence to discover the differences among jurisdictions, and more care in designing and scheduling communications. Approached as an adventure, a global project can be the professional opportunity of a lifetime, with lasting friendships across national boundaries being only one of many fringe benefits. Getting results based on shared vision and values, regardless of the participants' nationalities, offers the chance to prove that people really *are* alike all over. ▪

Imprimatur: The Imperative for Improvement

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One business lesson I learned long ago is that meaningful progress occurs only when an imprimatur—an official sanctioning or approval statement—for improvement exists. In the business world, a high-level person or committee *must* give their formal permission for personnel in the organization to proceed to make improvement. Fundamental to every improvement initiative is the need to provide personnel written or verbal permission to make improvements.

Many managers are surprised to learn this. They believe that every employee has the responsibility to improve his or her job, and that no special permission is needed. The reality is most employees, supervisors, and managers are consumed by the routine activities of their daily jobs—they get their work done, on time, and with a good effect on the customers. Most employees simply do not have the time to make improvements.

Additionally, employees who are inclined to make improvements are faced with many barriers. First, in today's complex world (where processes and technology are tightly intertwined) a single change to one area generally affects several other areas. While employees may be able to influence their own department to make a change, they rarely can influence an outside area. Consequently, when an unsolicited change is put forth by one unit, other affected units will either ignore the proposed change or try to stop it because the change has undesirable consequences.

A second barrier serves to dissuade those entrepreneurial employees who want to make improvements. This barrier is one of social custom. For whatever reason, people need specific and formal permission to make improvements. If you think this is a hollow statement, try this experiment at home. Go into one of your spouse's favorite rooms and rearrange the things in that room under the pretext of making an improvement. Make the change without talking to your wife or husband or asking permission. The reaction you will likely get from them is the same reaction many employees get when they approach a manager with an unsolicited improvement idea: "Who asked you to do this?" Frequently, this is the last time the employee will offer up an unsolicited idea for consideration.

In short, people wait for permission before volunteering their ideas for improvement. While a whole lot more is needed to bring improvement changes into the workplace, the beginning step is an imprimatur. ▪

Are We There Yet?

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Remember as a child starting to ask the proverbial "Are we there yet?" five miles into a long trip? It was worse on long trips with some of my friends' parents, who seemed to be on a mission to see how few stops they could make. On the other hand, my parents planned the trip and made frequent stops to change drivers, enjoy scenic views, keep us informed of how far we had to go, and tell us what we would do next. Most important, we talked about what we would do when we reached our destination and how much fun it would be.

There is a difference between taking a step toward a new environment and a leap to one.

We can learn much from long car trips with children when we are faced with multi-year projects, such as a major new systems implementation. To begin with, everyone should be aware of where the project is headed, how long it will take, and what the expected results are. It is also important to estimate what impact a change is likely to have on employee behavior patterns, work processes, technology requirements, and motivation. Management must be aware of the magnitude of change that will occur between the current state and the future environment. There is a difference between taking a step toward a new environment and a leap to one.

Management must assess what employee reactions will be and craft a change program that will provide support as workers go through the process of accepting change. The program must then be implemented, disseminated throughout the organization, monitored for effectiveness, and adjusted where necessary. Organizations exist within a dynamic environment that is subject to change due to the impact of various change triggers, such as evolving technologies.

To continue to operate effectively within this environment, organizations must be able to adapt to internally and externally initiated changes. Change will also impact the individuals within the organization. Effective change management requires an understanding of the possible results of change upon people, and how to manage potential sources of resistance to that change. The longer the project, the more management must make an effort to reward milestones. (My parents always made a point of doing something to celebrate that we were a quarter, half, or three-quarters of the way to our destination.)

Even though the Web has 10.8 million articles on the topic, change management is often considered an afterthought or something that will happen naturally. It isn't and it doesn't. None of us really likes change, but if it is to take place, we would much prefer to be part of it than to be a victim of it. We can only be part of it if we know what the plan is and what our role will be. Effective change management will limit the number of times you hear "Are we there yet?" ▪

"Are we there yet?"

CLIENT SPOTLIGHT

Project: Organizational Design / Process Improvement

Client: Assurity Life Insurance Company

Industry: Financial Services

Product Lines: Individual and Worksite: Life, Critical Illness, Hospital Indemnity, Long-Term Care, Disability Income Insurance, Annuities, and Retirement Plan Administration

Distribution: Assurity products are sold through independent National Marketing Organizations (NMOs) that are recruited by the Assurity field marketing representatives and by direct mail

Objective

- Design and implement a consolidated organization structure
- Streamline the processes supporting sales

Current Environment

Assurity Life is a mutual insurance company serving the small business and individual markets. The current consolidated organization was formed through multiple mergers over the years. Company operations merged, but the Marketing and Sales area had not transitioned to a single operation. Some staff still operated as though they were in separate organizations, and many of the associates were confused about their roles. An organizational redesign was needed.

The field marketing representatives were spending too much time in the home office resolving problems and shepherding business through the issue process. As a result, the National Marketing Organizations (NMOs) that sold Assurity's products were becoming dissatisfied with their support levels, and sales were down.

Project Scope

The Chief Marketing Officer (CMO) engaged Nolan to redesign the Marketing and Sales organization and the internal support processes. The goal was to create a single purpose organization, focused on performing all activities needed to market and sell Assurity products and to streamline the sales support operations. The CMO and Nolan consultant worked closely on analyzing, designing, and implementing comprehensive marketing organization changes.

To gather basic data, the Nolan consultant interviewed representatives of each area within Marketing and Sales. The purpose was to gain an understanding of what people were doing, for whom they were doing it, problems and difficulties they were encountering, and how well it was (or was not) working.

Additional input was gathered from the heads of key NMOs. They were interviewed to identify the support they wanted and their satisfaction with what they were receiving. As a final study issue, several alternative territory structures and compensation scenarios were discussed and actuarially analyzed.

The CMO and the Nolan consultant reviewed the results, findings, and conclusions. These included the issues identified, interview findings, consultant observations, sales results, and industry best practices. They evaluated several alternative redesigns and then arrived at a solid and practical implementation plan.

What Assurity Did

A new organization structure was designed and implemented. It included all functions and positions needed to deliver the sales results and marketing support the NMOs wanted, and internal operations needed, to do their jobs.

For each internal position, job descriptions were rewritten and responsibilities redefined. Each person's accountabilities were clarified and explained. New functions were added that delivered premier-level support and service, including the creation of a Platinum Support Unit, and a competition desk.

The field representative support structure was streamlined, with each rep having a dedicated home office person to support them. The support staff became the rep's "right hand" – delivering support services whenever and wherever needed.

Product specialist positions were enhanced, and they became focused on increasing sales within their specialty areas. A field training capability, Assurity University, was created to deliver video conferencing, on-demand video courses, and direct support to the field where and when needed.

The Assurity regional marketing representatives also had changes made to their responsibilities. Territories were redesigned, giving representatives greater accountability for sales results of the NMOs they support and greater opportunity to impact them.

Project Results

Results have been significant in many ways. Marketing and Sales employee morale is up significantly, as is the service levels they deliver. Associates have expressed more than job satisfaction. They now know their jobs and what is expected of them with a renewed sense of teamwork, openly "competing for excellence." The organization is smaller with more being accomplished with less, and with better results.

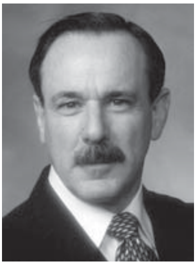
Sales results for the first half of the year are at 110 percent of plan, and that is against a plan that included a significant increase over 2007. Sales representatives also have a healthy competition about territory results while still supporting each other when needed or asked.

The field training has been extremely effective and well received, and is contributing to sales success. During the first half of the year, there were thousands of viewings of newly developed on-demand video courses. The product specialists (product champions) are consistently in demand for visits to the NMO sales organizations.

The organization has become strong, focused, and effective. Often, distributors are contacted about issues before they call Assurity. Many times, problems are resolved before the distributor is even aware that a problem has occurred.

Results show the overhauled Marketing and Sales organization is stronger.

Pizza or Primary Care?



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There is a debate raging in California over reimbursement rates for primary care physicians. California is proposing to pay PCPs $21.40 per visit. Meanwhile, depending on how you tip, a large pizza with two toppings costs $25. Something is badly wrong with health care in the Golden State.

As believers in the importance of primary care, we are concerned about it. Specifically, three long-term problems with primary care are as follows:

Primary care is not appreciated by health care policymakers. There is a huge bias toward procedure-based medicine that puts down the central role of primary care. But look at where the money goes. Health care policymakers preach prevention and integrated disease management, but they don't fund primary care, where highly-leveraged work is done.

The supply of PCPs is increasingly out of balance with demand. Medical students opt for higher-paying procedural specialties or services that offer less demanding lifestyles and work schedules. Some of this is money; some of it is the reduced prestige that our society and policymakers attribute to America's front-line doctors.

Health plans and insurers are making the situation worse. In a highly-competitive market with pressure for cost control and more competitive products, many payers are contributing to the problem. Sometimes their role in the problem is obvious, such as when they cut already-low reimbursement rates. Low reimbursement rates have two negative impacts—in the short term, they make the PCP "pick up the pace" and see more (do more) to cover their costs. This leads to lower quality and less satisfying medicine. Longer-term, stingy reimbursement rates send an economic signal that drives down the supply of PCPs.

> *Primary care is not appreciated by health care policymakers.*

Are there practical things that health plans can do? Of course there are. A visionary health plan CEO might consider these simple steps:

- Understand the supply and demand for primary care in your market. Go to Kaiser's www.statehealthfacts.com or call me at 719-339-9803.

- Ask your medical staff and finance staff to work together to brief you on how your plan treats primary care. Ask them to show you how an expanded role for primary care could improve quality and cost of care for your members.
- Ask your state HMO association or AHIP to become active in the primary care problem. (Don't worry about politics; improving primary care is a win-win issue.)

We're not saying raise reimbursement rates. We're suggesting, rather, that you study the problem and do what makes sense (and we think you'll do the right thing). In primary care—as in pizza—you get what you pay for. ▪

De-Blurring the Lines

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Where does technical focus end and management begin? In many organizations, the line between the two is blurred.

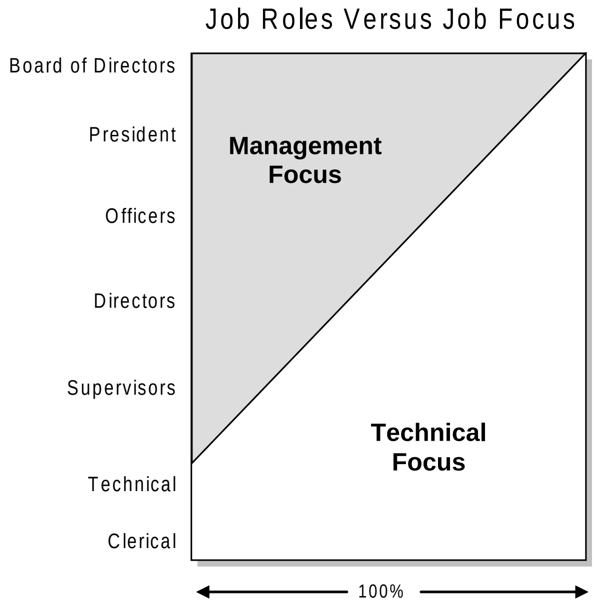
Technical people rise up through the ranks of an organization and, at some point, can go no higher. They are usually called a senior-something or a lead-something. At this point, they may lose site of managing the work on their desk or in a portfolio and begin to assume that, since they are at the top of the technical job pool, they are to manage other associates. They might not hire and fire the associates or give them appraisals or raises, but they do begin passing work along for others to do. They assume that being "senior" or "lead' gives them management authority—it should not. The manager is supposed to provide leadership, assign work, and provide performance feedback to associates; this is not the job of a senior or lead technician.

The manager is responsible for managing the work and the people. Technicians are responsible for managing the work once it has been assigned to them, and technicians are responsible for the impact their decisions have on the work they complete. Having the senior or lead assign work to others in the work unit might be a short-term solution for the manager, but it should not become a long-term practice.

As associates move up in an organization, their focus will change from a purely technical one to a blend of technical and management to, finally, all management. However, there is no blending at the technical levels. It begins at the supervisory role. (See diagram on next page.)

The senior or lead position in a unit must have a technical focus, and the job responsibilities should be 100 percent technical, until that time when they are promoted to supervisor or manager.

When the "Supertech" (a term I like to use for a technician who functions as a quasi- supervisor) begins assuming management responsibilities, it can lead to morale problems in the unit. Others in the unit might see the technician assigning work to them as a way for the technician to reduce his or her own workload, cherry-pick the easy projects, or make life difficult for some associates.



So you ask, "If the senior or lead technician is not going to assign work to others, what are they supposed to do?"

I believe they should:

1. Perform the work as outlined in their job description;
2. Mentor other technical associates in their unit;
3. Train newer associates on methods and practices;
4. Offer their vast expertise to others; and
5. Manage their desk, their assigned work, and their portfolio—not the other associates in the unit. ▪

The Culture-Driven Company

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Every organization has a distinct and unique culture. This culture is the product of the organization's history, its leadership, its industry, and its environment. For example, businesses in the same industry and environment frequently view similar situations quite differently. These differing visions are often the result of companies viewing the situation through the lens of their specific corporate culture.

Leo Tolstoy famously said in the opening sentence of *Anna Karenina*, "Every happy family is alike, but every unhappy family is *unhappy* in their own way." It could be said that every company (whether happy or unhappy) is different in its own way. This difference is not bad or good, but it can affect the organization's approach to some of its major decisions and its day-to-day operations.

Frequently, we read in the business press about a merger that has run into difficulties due to "differences in corporate cultures." What does that mean? Surely, both merger partners had a common purpose: to make a substantial profit, if nothing else. One could assume that there was an understanding, going in, of each other's strategies and goals. But something about the way those separate companies are run has made them so different that communication and agreement are difficult.

In our experience, "culture" refers primarily to management style. Most companies at least give lip service to being "customer-focused" or "numbers-oriented." But, when decisions are made, those labels can be interpreted in widely differing ways to support specific management perspectives. A company with a more collegial management style might start from the same place but end up with a different result than a company with a more autocratic or dictatorial style. These differences in style are both the cause and effect of the organization's history, experience, strategies, and goals.

In our experience, "culture" refers primarily to management style.

It is important to be aware of the impact of corporate culture. Management decisions that run against the grain of the corporate culture are doomed to failure. However, it is vital that organizations be self-aware so their decisions, plans, and actions are made in alignment with the culture, not because of it. We have seen decisions made or actions avoided because "we're not the kind of company that does that" or "it's just not our thing." The final decision might be exactly the same, but it should be based on solid financial or strategic reasons rather than a knee-jerk reaction to internal cultural issues.

Every organization has its sacred cows. One way to challenge the cultural norm is to question the validity of the sacred cows. They may have originated for solid financial, operational, or strategic reasons. However, they may have been so thoroughly absorbed into the culture that they no longer have meaningful value.

Every organization should enjoy and build on its unique culture. *Vive la difference*! But we should be open to improvement and not a slave to the culture. ▪

"Yes, Ted, at this company we take off our jackets, but we don't loosen our ties."

Not Just "All or None"

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With most of the increases in health care costs of the last 10 years shifted to the employee, there has been little incentive for health insurers to pursue the focused, effective management of health care resources. In fact, during this period, there was a general revolt by consumers against prior authorization requirements and denial of care that did not meet evidence-based criteria. Now, however, with a weakened economy sparked by the burdens of higher energy costs and declining housing values, it appears consumers are less willing to continue to accept the shifting of additional costs on top of the continuing rise in the overall cost of health care. This presents an opening for insurers to craft a medical management program that includes a utilization management component that will, at a minimum, reduce the future rate of increase in health care costs and premiums.

Utilization Management

Utilization management and *medical management* are not synonymous terms; *utilization management* is but one of medical management's three components, with the others being network development and management and quality management. The misperception that they are synonymous stems from the fact that utilization management is the component most familiar and visible to health care providers.

Many people see utilization management as an "all or none" phenomenon. The "all" is viewed as an arbitrary and capricious, "scorched earth" approach to managing health care resources, one characterized by a strategy of review and denial. On the contrary, the hallmark of superior utilization management is the influencing of the course of care that the patient receives so as to achieve optimal health care for the insured member. *Optimal health care* is defined as the care the patient requires provided at the lowest cost and accomplished within the parameters and constraints of the insured's benefit plan, provider contracts, and statutory regulations.

The guideposts for this journey to provide influence along the health care delivery continuum are evidence-based guidelines. Which care and services are subject to review and the variation in the stringency with which the evidence-based guidelines are applied determine whether the health care resources are loosely, moderately, or tightly managed. The level chosen should be the one likely to achieve the outcome desired. It is important to recognize that the strategic intent of this endeavor is to achieve high-quality, cost-effective health care for the insured member.

Critical to success are experienced clinical personnel who understand the benefit plans, policies, and guidelines and who have both the ability and willingness to debate and discuss the health care being delivered to the insured members.

With well-structured and executed utilization management, coupled with an effective negotiation program (as detailed in the second-quarter 2008 Nolan newsletter), the cost of care can be significantly reduced—even with a loosely managed approach. Increased attention to the management of health care resources improves both the efficiency and quality of the care delivered.

System Support

Using the appropriate software allows for consistency in both clinical review determinations and adjudication of claims. Internet-based guideline applications, such as Milliman, Interqual, and Hayes Technology Assessment, give ready access to routinely updated evidence-based guidelines and clinical information. CodeReview and Red Book are examples of software that support effective claim adjudication. These allow for maximum efficiency in making not only the initial claim and clinical review decisions, but in giving ready access to pertinent clinical information when in direct discussion with a provider or when reviewing an appeal of a previous denial.

Legal Support

One frequently overlooked but critical component of an effective medical management program is legal support. For maximum effectiveness, the legal department should provide at least one experienced health care attorney to be involved as an ad hoc member of the medical management department. Activities would include participation in developing and implementing contracts, reviewing guidelines, and defending against any legal challenges of medical management decisions.

An attorney who understands the goals and objectives of the medical management program and participates in the development of a strategy that avoids legal pitfalls is far preferable to one who regularly vetoes any endeavor that includes even a scintilla of legal risk.

Medical Management

Since the largest portion of the premium dollar funds health care services provided to the insured members, the effective management of these resources always allows a unique opportunity to create a sustainable competitive advantage for the insurer. In order to capitalize on this opportunity, the insurer must employ knowledgeable, experienced medical professionals to oversee the delivery of clinical services to members, with the focus resting equally on quality and the cost-effectiveness of care.

Crucial to the success of the medical management program is the medical director. The medical director must provide leadership, training, and mentoring to nursing personnel; take the lead in both development and acquisition of the guidelines and policies used in making medical necessity determinations; and provide input and support across the organization. All medical management personnel (and the medical director in particular) must be capable of articulating certification decisions to physicians, institutional providers, and internal constituencies.

To remain relevant and provide the outcome desired, an effective medical management program requires commitment, consistent decisions, and effective oversight. We at Nolan have experience with both “all” and “none” and would be pleased to discuss the issue or help you find appropriate positioning for your organization in between. ▪

“Uh-oh, your coverage doesn’t seem to include illness.”

Quality Results Are What Counts

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I've read all the *Harvard Business Review* case study articles on TQM, reengineering, Six Sigma, lean manufacturing, and today's latest silver bullet—the "double twisting, triple tuck" (sorry, but it's Olympic season!) lean Six Sigma. Without divulging my age, I can honestly say I've been around for all these techniques and a few others. I spent the first 10 years of my career in the manufacturing world, where I got a dose of most of these techniques before they hit the financial services and health care industries.

One thing I've learned is that unless the right approach is properly applied to any complex problem, a good solution is not guaranteed. Today's thorny business problems need well-thought-out solutions. Sure, I have a bias against the silver bullet theory. Many executives sign up just to say, "We are using (fill in the blank) to solve our performance problems." But it is not that easy. It was someone back in the 1600s who once said something like, "A problem well stated is a problem half solved." I've always liked that because it focuses on first understanding the problem.

...unless the right approach is properly applied to any complex problem, a good solution is not guaranteed.

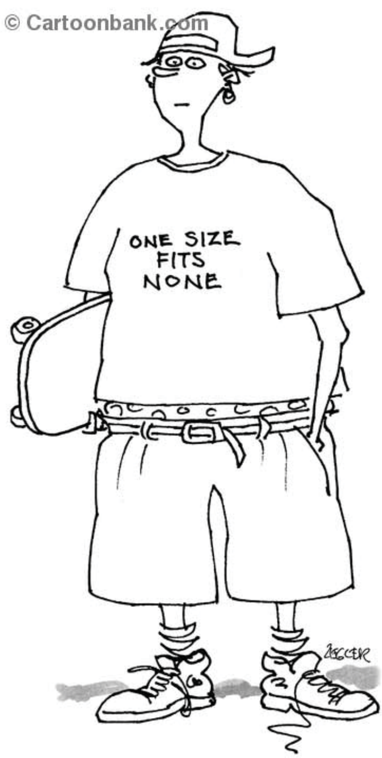
To begin with, I need information about the situation to really understand what we are trying to solve. That means knowing the process and all its impacts—having data on inputs and outputs, then having a good understanding of each available technique and approach and how it might help. Each of the techniques mentioned above is best suited to certain types of problems. When the business analyst truly understands the problem, he or she is better prepared to select an analytic technique or techniques to solve the problem. Problems with speed of processing—where there are too many hand-offs or too much specialization in skills—may be the main issue. The concepts around lean manufacturing might need to be applied.

Some organizations measure every step in a process and focus on errors and eliminating them, and Six Sigma has provided insight into many operating problems. Knowing where and when to apply attributes of Six

Sigma can help. What if we have a process that is measured, tracked, and reported, but has little value in the end product? Wouldn't we want to apply some of the Value Analysis techniques to a product development cycle before we measure it?

Sure, we all understand that today's business problems are complicated. One-size-fits-all approaches don't fit all! The Nolan Company feels that there are two imperatives when it comes to solving complex business problems. First, involve the right knowledge workers (business owners, analysts, workers, and, yes, consultants). Second, understand what all the latest tools and techniques can offer. Then you will be able to deploy the right mix of tools to solve your specific problems. Remember, it is quality results you are looking for, not recognition that you are a member of the latest "silver bullet" club! ▪

One-size fits-all approaches don't fit all!



Commercial Banking
Operating Efficiencies Making an Impact

Bob Grasing
President
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One of the key findings from the current Nolan Annual Efficiency Ratio Performance Study was in commercial banking: the overall trend in the business efficiency ratio has been steadily declining over the past three years. In 2005, the line-of-business efficiency ratio was 27.53 percent, and it dropped to 20.75 percent in 2007. The benchmark or top quartile banks' improvement over the same period was reported as going from 15.71 percent to 7.48 percent. This was significant for both high-performing banks, improving by 50 percent over two years, and for the average banks, which improved by 25 percent.

> *Commercial banking is one line of business that showed improvement year over year.*

The interest margin and non-interest income have been under significant pressure over this same three years, so the primary way that banks have been making this happen has been by tackling the time, cost, and capacity of the relationship managers and the credit and loan operations staff through process redesign. Improvement initiatives that are focused on these core processes have been the greatest areas of interest for our clients, primarily those in middle-market and small business lending. It makes sense, as very few banks are truly integrated, with a smooth process for collecting data, decisioning, funding, and booking.

Many banks run separate systems for the application, credit spreading, credit scoring, document preparation, loan accounting, prospect management, pipeline reporting, and, in some cases, incentives tracking. Multiple inputs and the need to manage the new business process often result in excessive inputs of the same data, and it takes longer than necessary to accomplish each step of the process effectively. We have seen the identical data entered eight separate times for a single loan.

What is even more confounding is that, typically, 65 to 75 percent of new business is with existing customers. This begs the question, why aren't application screens populated with information from existing customer profiles? In addition, the administrative burden on the relationship manager and the pressure to shepherd the loan through the process often results in leaving managers with less than 15 percent of their available time for business development.

Our experience and the study results show just how important it is to be effective in these key processes, and the data demonstrates what the results can be when the steps are coordinated and integrated. There is still a great opportunity for improvement between the average bank's process and that of the high performers—by a multiple of three, as noted earlier. And we suspect that as the economy rebounds, the high performers will find that their operating efficiency and increased capacity will keep the efficiency ratio trend moving in a terrific downward direction. ▪

Nolan Events

ISOTech 2008
November 9-11, 2008: Las Vegas, NV

Nolan Senior Vice President Rod Travers will moderate a compliance session at this annual conference to be held at the Rio All-Suite Hotel in Las Vegas, Nevada. This session will discuss current trends, upcoming events, and best practices—and how technology can help you prepare for new regulatory requirements. For further conference information, go to *www.iso.com*.

IASA - The Executive EDGE
December 7-9, 2008: Grapevine, TX

Nolan Senior Vice President Rod Travers will facilitate a CIO Roundtable session at this event to be held in Grapevine, Texas. For more information about this event, go to *www.iasa.org*.